



AMERICAN ACADEMY *of* ACTUARIES

June 22, 2010

Ms. Anne Kelly, Chair
Property and Casualty Risk-Based Capital Working Group
Capital Adequacy (E) Task Force

Mr. Lou Felice, Chair
Capital Adequacy (E) Task Force

National Association of Insurance Commissioners
2301 McGee Street
Suite 800
Kansas City, MO 64108

Re: Risk-Based Capital Underwriting Factors – 2010 Update – Addendum Using 5 Percent Cap

Dear Ms. Kelly and Mr. Felice:

On behalf of the American Academy of Actuaries,¹ Property and Casualty Risk-Based Capital (RBC) Committee, I am pleased to provide this addendum to our March 2010 Update. The March 2010 Update provided underwriting factors calculated by line using an approach similar to that employed in past years, with factor changes capped at 15 percent. The purpose of this addendum is to provide updated factors using a 5 percent cap in response to a request by the Property and Casualty Risk-Based Capital Working Group.

Similar to our conclusions in March, we found the weighted aggregate impact of the indicated factors before covariance and companies' own experience capped at 5 percent remains small, at nearly zero percent, with a 3 percent increase in the reserve charge offsetting a nearly 4 percent decrease in the premium charge. Most of the factors, by count and by weighted RBC charge, are capped.

Changes experienced by insurers in certain segments are greater in magnitude, with both increases and decreases, as shown in Exhibit III, which illustrates the impact of the change in factors before the covariance adjustment and companies' own experience by line groupings. In

¹ The American Academy of Actuaries ("Academy") is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

particular, the indicated capped reserve charge increases 5 percent for the reinsurance lines and 4.4 percent for most commercial lines, while it decreases nearly 5 percent for personal lines. The indicated capped premium charge increases 5 percent for the reinsurance lines, while it decreases nearly 5 percent for most commercial and personal lines.

Aside from the size of the cap, the comments included in the March letter are equally applicable to this addendum. In particular, although data was not credible for the financial & mortgage guaranty line, the indicated factors for this line were increased by the 5 percent cap to reflect the high level of inherent risk in this line that is not reflected in the current factors.

We are pleased to assist the NAIC by providing this addendum. If you have any questions, please feel free to contact Lauren Pachman, the Academy's casualty policy analyst, at pachman@actuary.org. Please feel free to seek our assistance in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Krutov". The signature is fluid and cursive, with the first name "Alex" and last name "Krutov" clearly distinguishable.

Alex Krutov, Chair
American Academy of Actuaries' P/C Risk-Based Capital Committee

Enclosure

American Academy of Actuaries

Exhibit I

**P/C Risk-Based Capital Committee's Subgroup on Pricing & Reserving Charges
Summary of Results**

Line	Line Letter	Reserving Runoff Ratio			IIO		Impact from Reserving
		Current	Before Cap and Min	Indicated	Current	Indicated	
(1) H/F	A	0.206	0.201	0.201	0.939	0.938	-4.5%
(2) PPA	B	0.199	0.124	0.192	0.927	0.928	-5.0%
(3) CA	C	0.238	0.230	0.230	0.909	0.911	-3.8%
(4) WC	D	0.310	0.338	0.324	0.835	0.830	5.0%
(5) CMP	E	0.439	0.465	0.465	0.884	0.876	4.1%
(6) MM Occurrence	F1	0.439	0.217	0.431	0.869	0.865	-5.0%
(7) MM CM	F2	0.283	0.309	0.306	0.893	0.883	5.0%
(8) SL	G	0.249	0.164	0.257	0.901	0.890	-5.0%
(9) OL	H	0.478	0.529	0.511	0.862	0.852	5.0%
(11) Spec Prop	I	0.184	0.274	0.191	0.966	0.966	5.0%
(12) Auto Phys Damage	J	0.118	0.000	0.112	0.975	0.976	-5.0%
(10) Fidelity & Surety	K	0.315	0.307	0.325	0.957	0.940	-5.0%
(13) Other	L	0.183	0.153	0.172	0.964	0.967	-5.0%
(15) International	M	0.327	0.327	0.327	0.877	0.874	-2.4%
(16) Rein Property & Financial	N&P	0.278	0.580	0.286	0.901	0.901	5.0%
(17) Reinsurance Liab	O	0.750	1.357	0.769	0.834	0.838	5.0%
(18) Products Liability	R	0.627	1.414	0.643	0.838	0.841	5.0%
(14) Fin & Mort	S	0.150	0.150	0.200	0.962	0.926	5.0%
(19) Warranty	T	0.315	0.307	0.325	0.957	0.940	-5.0%
							3.0%

Line	Line Letter	Loss & LAE Ratio			IIO		Impact from Premium
		Current	Before Cap and Min	Indicated	Current	Indicated	
(1) H/F	A	0.949	0.919	0.937	0.951	0.954	-5.0%
(2) PPA	B	0.983	0.933	0.969	0.921	0.925	-5.0%
(3) CA	C	1.005	0.926	0.988	0.883	0.890	-5.0%
(4) WC	D	1.051	1.013	1.033	0.832	0.839	-5.0%
(5) CMP	E	0.935	0.886	0.921	0.888	0.896	-5.0%
(6) MM Occurrence	F1	1.842	1.691	1.822	0.778	0.767	-5.0%
(7) MM CM	F2	1.071	1.351	1.092	0.835	0.827	5.0%
(8) SL	G	0.910	0.891	0.904	0.897	0.898	-5.0%
(9) OL	H	1.045	1.003	1.042	0.820	0.816	-5.0%
(11) Spec Prop	I	0.955	0.786	0.941	0.944	0.949	-5.0%
(12) Auto Phys Damage	J	0.847	0.814	0.843	0.972	0.971	-5.0%
(10) Fidelity & Surety	K	0.863	0.979	0.883	0.921	0.904	5.0%
(13) Other	L	0.891	0.891	0.893	0.956	0.947	-5.0%
(15) International	M	1.169	1.169	1.169	0.901	0.905	1.4%
(16) Rein Property & Financial	N&P	1.337	1.733	1.349	0.884	0.893	5.0%
(17) Reinsurance Liab	O	1.419	1.706	1.507	0.810	0.777	5.0%
(18) Products Liability	R	1.195	1.288	1.214	0.778	0.774	5.0%
(14) Fin & Mort	S	1.400	1.400	1.482	0.916	0.884	5.0%
(19) Warranty	T	0.863	0.979	0.883	0.921	0.904	5.0%
							-3.7%

Underwriting Expense Ratio 27.5%

Capped Selection	5.0%
Percentile Selected	87.5%
Industry Underwriting Expense	
OUE	27.5%

American Academy of Actuaries
P/C RBC Committee's Subgroup on Pricing & Reserving Charges

Exhibit II

Development of Capped Factors

Line	Line Letter	Current			Proposed before Cap, w/ Min			Indicated Capped	Indicated Capped Charge
		Reserve Runoff Ratio	Reserving IIO	Reserve Charge	Reserve Runoff Ratio	Reserving IIO	Reserve Charge Before Cap, with Min		
(1) H/F	A	0.206	0.939	0.132	0.201	0.938	0.127	0.127	0.201
(2) PPA	B	0.199	0.927	0.111	0.124	0.928	0.050	0.106	0.192
(3) CA	C	0.238	0.909	0.125	0.230	0.911	0.121	0.121	0.230
(4) WC	D	0.310	0.835	0.094	0.338	0.830	0.111	0.099	0.324
(5) CMP	E	0.439	0.884	0.272	0.465	0.876	0.283	0.283	0.465
(6) MM Occurrence	F1	0.439	0.869	0.250	0.217	0.865	0.053	0.238	0.431
(7) MM CM	F2	0.283	0.893	0.146	0.309	0.883	0.156	0.153	0.306
(8) SL	G	0.249	0.901	0.125	0.164	0.890	0.050	0.119	0.257
(9) OL	H	0.478	0.862	0.274	0.529	0.852	0.303	0.288	0.511
(11) Spec Prop	I	0.184	0.966	0.144	0.274	0.966	0.231	0.151	0.191
(12) Auto Phys Damage	J	0.118	0.975	0.090	0.000	0.976	0.050	0.086	0.112
(10) Fidelity & Surety	K	0.315	0.957	0.258	0.307	0.940	0.229	0.246	0.325
(13) Other	L	0.183	0.964	0.140	0.153	0.967	0.115	0.133	0.172
(15) International	M	0.327	0.877	0.164	0.327	0.874	0.160	0.160	0.327
(16) Rein Property & Financial	N&P	0.278	0.901	0.151	0.580	0.901	0.424	0.159	0.286
(17) Reinsurance Liab	O	0.750	0.834	0.460	1.357	0.838	0.975	0.482	0.769
(18) Products Liability	R	0.627	0.838	0.363	1.414	0.841	1.030	0.382	0.643
(14) Fin & Mort	S	0.150	0.962	0.106	0.150	0.926	0.065	0.112	0.200
(19) Warranty	T	0.315	0.957	0.258	0.307	0.940	0.229	0.246	0.325

Minimum Charge Applied 0.050

Line	Line Letter	Current			Proposed before Cap, w/ Min			Indicated Capped	Indicated Capped Charge
		Premium Loss and LAE Ratio	Premium IIO	Premium Charge	Premium Loss and LAE Ratio	Premium IIO	Premium Charge Before Cap, with Min		
(1) H/F	A	0.949	0.951	0.177	0.919	0.954	0.152	0.169	0.937
(2) PPA	B	0.983	0.921	0.180	0.933	0.925	0.138	0.171	0.969
(3) CA	C	1.005	0.883	0.162	0.926	0.890	0.099	0.154	0.988
(4) WC	D	1.051	0.832	0.149	1.013	0.839	0.125	0.142	1.033
(5) CMP	E	0.935	0.888	0.105	0.886	0.896	0.069	0.100	0.921
(6) MM Occurrence	F1	1.842	0.778	0.708	1.691	0.767	0.572	0.673	1.822
(7) MM CM	F2	1.071	0.835	0.169	1.351	0.827	0.392	0.178	1.092
(8) SL	G	0.910	0.897	0.091	0.891	0.898	0.075	0.087	0.904
(9) OL	H	1.045	0.820	0.132	1.003	0.816	0.093	0.125	1.042
(11) Spec Prop	I	0.955	0.944	0.177	0.786	0.949	0.050	0.168	0.941
(12) Auto Phys Damage	J	0.847	0.972	0.098	0.814	0.971	0.065	0.093	0.843
(10) Fidelity & Surety	K	0.863	0.921	0.070	0.979	0.904	0.160	0.073	0.883
(13) Other	L	0.891	0.956	0.127	0.891	0.947	0.119	0.120	0.893
(15) International	M	1.169	0.901	0.328	1.169	0.905	0.333	0.333	1.169
(16) Rein Property & Financial	N&P	1.337	0.884	0.457	1.733	0.893	0.823	0.480	1.349
(17) Reinsurance Liab	O	1.419	0.810	0.424	1.706	0.777	0.601	0.446	1.507
(18) Products Liability	R	1.195	0.778	0.205	1.288	0.774	0.272	0.215	1.214
(14) Fin & Mort	S	1.400	0.916	0.557	1.400	0.884	0.513	0.585	1.482
(19) Warranty	T	0.863	0.921	0.070	0.979	0.904	0.160	0.073	0.883

Minimum Charge Applied 0.050

American Academy of Actuaries
Risk Based Capital Subgroup on Pricing & Reserving Charges
Estimated Impact

Exhibit III

					Impact Weighted on Industry Reserves and Premiums <i>prior to covariance</i>										
					Reserve (\$)		Premium (\$)		Change (\$)						
					Charge Before	Capped Charge	Charge Before	Capped Charge		Reserve	Premium	Total	Percent Total Change		
Line	Impact from Reserving	Impact from Premium	Res	Prem											
(1) H/F	-4.5%	-5.0%	0	1	2,953,492	2,822,002	10,469,178	9,945,719		-131,490	-523,459	-654,949	-4.9%		
(2) PPA	-5.0%	-5.0%	1	1	9,734,957	9,248,209	17,043,140	16,190,983		-486,748	-852,157	-1,338,905	-5.0%		
(3) CA	-3.8%	-5.0%	0	1	3,321,565	3,194,046	2,893,708	2,749,022		-127,518	-144,685	-272,203	-4.4%		
(4) WC	5.0%	-5.0%	1	1	12,274,176	12,887,885	5,900,547	5,605,520		613,709	-295,027	318,681	1.8%		
(5) CMP	4.1%	-5.0%	0	1	10,535,989	10,972,181	3,179,277	3,020,313		436,192	-158,964	277,228	2.0%		
(6) MM Occurrence	-5.0%	-5.0%	1	1	2,726,436	2,590,115	1,442,276	1,370,162		-136,322	-72,114	-208,436	-5.0%		
(7) MM CM	5.0%	5.0%	1	1	2,687,358	2,821,726	1,240,399	1,302,419		134,368	62,020	196,388	5.0%		
(8) SL	-5.0%	-5.0%	1	1	940,864	893,821	561,317	533,251		-47,043	-28,066	-75,109	-5.0%		
(9) OL	5.0%	-5.0%	1	1	34,523,889	36,250,084	5,302,515	5,037,390		1,726,194	-265,126	1,461,069	3.7%		
(11) Spec Prop	5.0%	-5.0%	1	1	2,360,565	2,478,593	5,911,953	5,616,355		118,028	-295,598	-177,569	-2.1%		
(12) Auto Phys Damage	-5.0%	-5.0%	1	1	508,985	483,535	6,884,971	6,540,722		-25,449	-344,249	-369,698	-5.0%		
(10) Fidelity & Surety	-5.0%	5.0%	1	1	1,255,430	1,192,658	426,696	448,030		-62,771	21,335	-41,437	-2.5%		
(13) Other	-5.0%	-5.0%	1	1	0	0	452,957	430,309		0	-22,648	-22,648	-5.0%		
(15) International	-2.4%	1.4%	0	0	77,761	75,871	94,862	96,213		-1,890	1,351	-539	-0.3%		
(16) Rein Property & Financial	5.0%	5.0%	1	1	1,190,560	1,250,087	3,041,304	3,193,370		59,528	152,065	211,593	5.0%		
(17) Reinsurance Liab	5.0%	5.0%	1	1	18,431,554	19,353,132	3,051,823	3,204,414		921,578	152,591	1,074,169	5.0%		
(18) Products Liability	5.0%	5.0%	1	1	6,045,715	6,348,001	568,580	597,009		302,286	28,429	330,715	5.0%		
(14) Fin & Mort	5.0%	5.0%	1	1	9,129	9,585	325,089	341,343		456	16,254	16,711	5.0%		
(19) Warranty	-5.0%	5.0%	1	1	55,498	52,723	145,716	153,001		-2,775	7,286	4,511	2.2%		
					109,633,921	112,924,253	68,936,306	66,375,546		3,290,332	-2,560,760	729,572	0.41%		
Percentage of Reserve/Premium Capped									Main Groups*						
Number Capped									Reserve				Premium	Total	
Proportion of Lines Capped									HO/PPA/APD				-4.9%	-5.0%	-5.0%
									CMP/WC/CA/OL/SP/PL				4.4%	-4.8%	2.1%
									Reinsurance				5.0%	5.0%	5.0%
									Medical Malpractice				0.0%	-0.4%	-0.1%

*Does not include all lines